89-1552

NO.

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

OCTOBER TERM 1989

THE CLAUSEN COMPANY,

Petitioner,

v.

DYNATRON/BONDO CORPORATION,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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QUESTIONS PRESENTED

1. Whether a proof of claim filed in a United States Bankruptcy Court seeking damages for both patent infringement and alleged breach of contract, which contract has a penalty clause, both claims being for patent infringement of the original patent which became a reissued patent (with narrower claims) is an action based on the patent laws of the United States and therefore appealable only to the United States Court of Appeals for the Federal Circuit under *Christianson* v. *Colt Industries Operating Corp.*, 486 U.S. 800, 7 U.S.P.Q.2d 1109 (1988) and 28 U.S.C. §1295(a)(1) when the contract itself made no mention of a reissue patent.

2. Whether an appeal lies only to the Court of Appeals for the Federal Circuit when part of the action transferred to the United States Bankruptcy Court and appealed to the United States District Court and Court of Appeals for the Federal Circuit clearly involved only patent law issues under *Korody-Colyer Corp.* v. *General Motors Corp.*, 828 F.2d 1571 (Fed. Cir. 1987), 4 U.S.P.Q.2d 1203.

3. Whether there is a conflict among the circuits which this Court should resolve concerning whether agreements which settle litigation but which are not approved by the court before which the litigation was then pending because no significant proceedings other than the filing of the complaint have occurred are agreements which can be terminated on the grounds of patent misuse by the alleged infringer under *Lear* v. *Adkins*, 395 U.S. 653 (1969).

4. Whether an agreement between parties to a lawsuit in a 1976 case in which no discovery took place, no answers or other pleadings were filed, no order of court was either entered or required, in which plaintiff voluntarily dismissed the action without prejudice, and no judge approved or disapproved the agreement is subject to the rule of *Lear* v. *Adkins*, 395 U.S. 653 (1969).

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OPINION BELOW

The decision of the United States Court of Appeals has been published in 889 F.2d 459 and 12 U.S.P.Q.2d 1814. The order denying the petition for rehearing was entered on December 22, 1989.

JURISDICTION

This Court has jurisdiction to entertain this petition for certiorari pursuant to the provisions of 28 U.S.C. §1254.

CONSTITUTIONAL AND STATUTORY PROVISIONS

This case involves 28 U.S.C. §1338, 35 U.S.C. §1, *et seq.* and 28 U.S.C. §1295(1).

STATEMENT OF THE CASE

A. Procedure

After respondent, Dynatron/Bondo Corporation filed its complaint in the district court for patent infringement and breach of contract, the Clausen Company ("Clausen") filed a motion for transfer of that case to the bankruptcy court where Clausen had, prior to the motion, but after the filing of the district court complaint, filed a complaint to dismiss Dynatron/Bondo's proof of claim and amended proof of claim.

The district court transferred Count II of the complaint to the bankruptcy court and retained Count I. Clausen filed a motion for summary judgment in the bankruptcy court on what was Count II of the complaint on the grounds of patent misuse. The bankruptcy court granted Clausen's motion for summary judgment on Count II. Clausen then filed a motion for summary judgment on its complaint in the bankruptcy court on the grounds of the res judicata effect of the entry of summary judgment on Count II. The bankruptcy court also

granted Clausen's motion for summary judgment on its complaint.

The district court heard Dynatron/Bondo's appeals from both decisions of the bankruptcy court and affirmed, in separate opinions, the decisions of the bankruptcy court. Dynatron/Bondo then took an appeal to the Federal Circuit on the affirmance of the bankruptcy court decision on Count II of its complaint. The Federal Circuit Court dismissed the appeal on the grounds that the appeal was not from a final judgment. Dynatron/Bondo then appealed to the Third Circuit the affirmance of the second bankruptcy court decision by the district court. The Third Circuit reversed that decision of the district court on the grounds that the original decision of the bankruptcy court on Count II was not a final judgment entitled to res judicata effect.

This petition involves Clausen's claim that the Third Circuit lacked jurisdiction to hear the appeal because the appeal belonged in the Federal Circuit since the agreement between the parties raised issues which could only be resolved under United States patent law. Clausen claims that there is a conflict among the circuits on whether agreements which settle litigation but which are not approved by the court before which the litigation was then pending because no proceedings other than the filing of the complaint have occurred are agreements which can be terminated on the grounds of patent misuse by the alleged infringer. Clausen further claims that the doctrine of *Lear v. Adkins*, 395 U.S. 653 (1969) is applicable to the present situation and that Clausen is not estopped from asserting the unenforceability of the agreement.

B. Facts

Dynatron/Bondo was granted U.S. patent 3,957,176 in May, 1976. Shortly thereafter, in 1976, Dynatron/Bondo commenced suit in the United States District Court for the District of New Jersey against Clausen alleging patent infringement. That suit was terminated by Dynatron/Bondo's

filing of a notice of dismissal without prejudice under Rule 41 prior to an answer being filed. The parties to the suit executed an agreement prior to the voluntary dismissal of the action. The agreement was neither presented to, nor approved by the court. The agreement was entitled "Settlement Agreement" by Dynatron's attorney who prepared the agreement.

The agreement contained the following terms:

> After the effective date of this Agreement, Clausen shall not make . . . any . . . containers which . . . are similar to the current Clausen . . . dispenser or which infringe . . . patent . . . 3,957,176.
>
> After January 15, 1977 . . . Clausen shall pay to Dynatron/Bondo . . . $5.00 for each . . . dispenser which is similar to the current Clausen . . . dispenser or which infringes . . . patent 3,957,176 . . . This subparagraph is not a license to grant to Clausen . . . but is considered to fix the penalty for violation of this Agreement and for infringement of the DYNATRON/BONDO patent.

Dynatron/Bondo applied for a reissue of patent 3,957,176 on the ground that it was partially invalid for claiming more than the inventor had a right to claim. The application was filed in May 1978 and the reissue patent issued in July 1985 with claims of reduced scope (compared to the original patent) as can be determined by an inspection of the claims.

In June 1985, Dynatron/Bondo filed its proof of claim in Clausen's Chapter 11 bankruptcy case which itself had been filed in May 1985. Clausen filed the present adversary proceeding in the United States Bankruptcy Court for the District of New Jersey to dismiss Dynatron/Bondo's proof of claim and amended proof of claim on or about March 24, 1987. The proof of claim and the amended proof of claim sought damages for infringement of a U.S. patent and to

enforce an agreement which contained a $5 per pail penalty for infringement of the patent. Dynatron/Bondo's answer admitted that the proof of claim and amended proof of claim sought damages for patent infringement.

Clausen's amended plan of reorganization was confirmed by the bankruptcy court on or about November 2, 1986 and distributions on the plan were made thereafter. Dynatron/Bondo, which had not perfected its alleged claim, was not listed as a creditor and was not included in any distribution.

In February 1987, Dynatron/Bondo filed suit in the district court against Clausen for alleged patent infringement (Count I) and for alleged breach of an agreement (Count II) which contained a clause prohibiting infringement of a patent which was admittedly invalid for claiming more than the inventor had a right to claim. Count II of the complaint, which contained allegations of jurisdiction based on 28 U.S.C. §1338, was transferred to the bankruptcy court by order of Judge Bissell over Dynatron/Bondo's objection. Count II became known as adversary proceeding 87-0915(TS) in the bankruptcy court forming a part of the docket in case 85-02027.

The proof of claim filed by Dynatron/Bondo in June 1985 in bankruptcy case 85-02027 contained the following claim for relief:

> 2. That Clausen be required to pay to Dynatron/Bondo . . . $5.00 for each dispenser pail that is similar to the dispenser pail illustrated in Clausen Catalog CC10183 or that infringes U.S. patent . . .

Clausen's motion for summary judgment filed in 87-0915(TS) on the grounds of patent misuse was based on the language of the so-called "Settlement Agreement;" the complaint in 87-0915(TS), which was the complaint in the district court case 87-362(JWB); the answer in 87-0227(TW); Dynatron's proof of claim in the bankruptcy court; the letter

of Dynatron's attorney, George Thomas, dated December 1986; and an affidavit of George Thomas, Dynatron's attorney, executed April 13, 1987 and filed in the United States District Court for the District of New Jersey in case 87-362(JWB).

Judge Stripp, in ruling on the summary judgment motion, stated in bankruptcy case 87-0915(TS):

> . . . by instituting this suit on the Settlement Agreement, Dynatron/Bondo expressed a clear intention to enforce the Agreement according to its precise terms . . .
>
> VI. CONCLUSION
>
> To summarize, the Court finds that the provision of the Settlement Agreement prohibiting Clausen from producing dispensers similar to that which is covered by Dynatron/Bondo's patent, coupled with Dynatron/Bondo's efforts to enforce that provision, constitutes patent misuse.

Since Judge Stripp's ruling on January 22, 1988, communicated to the parties on January 21, 1988 by the court's clerk, Dynatron/Bondo has been engaged in a frantic effort to wriggle free of the noose which it fashioned for itself.

Dynatron filed a motion in 87-0915(TS) to reopen. That motion was denied.

Clausen filed a motion for summary judgment in 87-0227(TW) based on the decision in 87-0915(TS). After hearing before Judge Stripp, that summary judgment motion was also granted.

Dynatron/Bondo appealed both summary judgments to the district court which in separate written opinions and orders denied each appeal.

STATEMENT OF RELATED CASES

Case 87-362(JWB) in the United States District Court for the District of New Jersey is still pending in that court. The only parts of that case remaining concern when, if ever, Dynatron/Bondo can resume its claim for patent infringement against Clausen (i.e., when have the effects of the patent misuse been dissipated) and Clausen's counterclaim for unfair competition.

REASONS FOR GRANTING THE WRIT

A. Original Patent Invalid; Reissue Patent Asserted Raises Claims Under Patent Law of United States

The primary law in this case is that announced by the Supreme Court in *Christianson* v. *Colt Industries Operating Corp.*, 486 U.S. 800 (1988), 7 U.S.P.Q.2d 1109. That case holds that if the complaint raises a claim which cannot be resolved without application of United States patent law, the case arises under the patent law and appellate jurisdiction is in the Federal Circuit.

Dynatron's motion to amend proof of claim clearly shows that the original patent is invalid and that a reissue patent is now the basis for its claim. The presence of the reissue patent shows the patent law to be essential to its claim. The Third Circuit erred in failing to consider this decisive issue. Accordingly, the writ should be granted.

B. Dynatron's Proof of Claim Seeks Damages for Patent Infringement — A Claim Which Exists Only Under Patent Law

The Dynatron proof of claim filed sought damages for patent infringement — patent infringement has no meaning under state law; this claim arises under Federal patent law and the Third Circuit improperly applied *Christianson, supra.*

C. The Third Circuit Has Failed to Consider *Korody-Colyer Corp.* v. *General Motors Corp.*, 828 F.2d 1572 (Fed. Cir. 1987), 4 U.S.P.Q.2d 1203 4 U.S.P.Q.2d 1203 and *Technicon Instruments Corp.* v. *Alpkem Corp.*, 9 U.S.P.Q.2d 1540 (1989)

Once jurisdiction attached to the Federal Circuit, it cannot be withdrawn because the patent phase of the case was decided earlier. The two cited cases show striking similarity to the present situation. In this case, it is clear that Federal Circuit jurisdiction attached with the filing of the district court complaint by Dynatron. Subsequent severing of trial issues into patent and non-patent issues will not change the jurisdiction of the appeal court. The Third Circuit failed to apply that settled law.

D. Clausen Never Waived its Right to Contest the Original Patent or the Reissue Patent

The "contract" between the parties contains only an allegation of patent infringement. Clausen neither specifically nor by implication waived its right to contest the patent's validity or applicability to its production.

To support the Third Circuit's conclusion that Clausen waived its right to contest the patent required the Third Circuit to conclude that Clausen waived its rights to contest the reissue patent which no court has found in any case of which counsel is aware.

The very rule of *Lear v. Adkins*, 395 U.S. 653 (1969) supported by cases such as *Warner-Jenkinson Co. v. Allied Chemical Corp.*, 567 F.2d 184, 193 U.S.P.Q. 753 (2nd Cir. 1977) is clearly to the contrary. There is no licensee estoppel, especially where the license is silent on the subject and where the patent has been reissued for overclaiming. In the present case, the overclaiming did not come to light until some substantial time after the alleged "contract" between the parties was executed.

E. Conflict Among the Circuits Concerning the Applicability of *Lear v. Adkins*

Hemstreet v. Spiegel, Inc., 851 F.2d 348 (Fed. Cir. 1988), 7 U.S.P.Q.2d 1502, held that *Lear v. Adkins* does not apply to settlement agreements made after a case had been in trial for more than one week. The Third Circuit cited *Ransburg v. Spiller and Spiller, Inc.*, 489 F.2d 974 (7th Cir. 1973) and it could have cited other cases to show that an executed settlement order is binding upon the parties and not subject to the rule of *Lear v. Adkins, supra.* However, the facts of the present case are far different. The present case involves clear patent misuse from the inception of the agreement in a case that was settled by plaintiff's dismissal of the action without prejudice and without even the taking of any discovery.

There has been some commentary on the issue since 1976 when Judge Markey wrote an opinion for the Sixth Circuit, *Aro Corp. v. Allied Witan Co.*, 531 F.2d 1368, 190 U.S.P.Q. 392 (6th Cir. 1976). *See Einhorn, Patent Licensing Transactions*, p.2-17, et. seq. and 16 *Southwestern Legal Foundation Patent Law Annual* 121, 128, et. seq., wherein the issues concerning the enforcement of settlement orders and consent decrees which contain allegedly improper clauses are discussed. The commentary shows that there is a division among the circuits concerning the enforcement of settlement agreements which constitute patent misuse.

The Second Circuit in *Warner-Jenkinson Co. v. Allied Chemical Corp.*, 567 F.2d 184, 193 U.S.P.Q. 753 (2nd Cir. 1977) decided that it would not proceed on the case-by-case basis recommended by Judge Markey in *Aro, supra* and that settlement agreements would be subject to *Lear.*

F. The "Contract" is Unenforceable Under Federal Patent Law as Containing a Penalty — A Remedy is not Provided by Statute

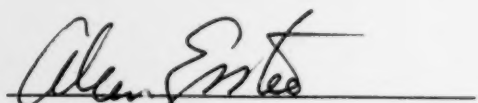
The exclusive damages provided by the United States Code are set forth in 35 U.S.C. §281, *et seq.*, especially §284

which provides for compensatory damages not less than a reasonable royalty. (Treble damages may be assessed for willful infringement — an issue not raised in this appeal.)

CONCLUSION

For the reasons cited above, this petition should be granted. This petition raises at least four important issues of federal law which are ripe for resolution by this Court. These are: (1) the scope of jurisdiction of the Court of Appeals for the Federal Circuit; (2) the applicability of *Lear v. Adkins* to agreements which settle litigation prior to any discovery or trial and without approval of court; (3) the scope of jurisdiction of the Federal Circuit when it has reviewed a related case; and (4) the varying effect of *Lear v. Adkins* in different circuits.

Respectfully submitted,



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CERTIFICATE OF MAILING

I hereby certify that on this 22nd day of March 1990, a true and correct copy of the foregoing PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT was mailed by placing the same in the United States Mail, postage prepaid, addressed as follows:

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Filed: November 3, 1989

United States Court of Appeals

FOR THE THIRD CIRCUIT

NO. 89-5138

THE CLAUSEN COMPANY,

Appellee

v.

DYNATRON/BONDO CORPORATION,

Appellant

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY
(D.C. CIVIL NO. 88-2351)

ARGUED: OCTOBER 2, 1989
BEFORE: GIBBONS, *Chief Judge*,
SLOVITER AND GREENBERG,
Circuit Judges

(Opinion Filed: November 3, 1989)

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OPINION OF THE COURT

GIBBONS, *Chief Judge*:

This matter is before us by virtue of a notice of appeal which conveys the impression, correctly as it turns out, that

we are about to enter a procedural and jurisdictional maze. The notice of appeal filed on February 24, 1989 reads:

THE CLAUSEN COMPANY,	:	Civil Action
	:	No. 88-2351
Plaintiff:		
	:	Civil Action
v.	:	
	:	
DYNATRON/BONDO CORPORATION,	:	
	:	
Defendant.:		

In The Matter of:	:	Case No. 85-02707
THE CLAUSEN COMPANY,	:	Chapter 11
	:	
Debtor	:	
	:	Adversary
Proceeding	:	Proceeding
THE CLAUSEN COMPANY.	:	No. 87-0227TW
	:	
Plaintiff.:		Civil Action
	:	
v.	:	
	:	
DYNATRON/BONDO CORPORATION,	:	
	:	
Defendant.:		

NOTICE OF APPEAL

> Notice is hereby given that Dynatron/Bondo Corporation, party to the above-named action(s), hereby appeals to the United States Court of Appeals for the Third Circuit from the Order of the Honorable John W. Bissell, U.S.D.J., dated January 25, 1989 and entered on the docket on January 27, 1989 and on January 30, 1989, denying the appeal of Dynatron/Bondo Corporation from, and does further appeal, the order entered by the Honorable Stephen Stripp, U.S.B.J., granting summary judgment to The Clausen Company in the United States Bankruptcy Court proceedings bearing Adversary No. 87-0227 T.W.

From the caption we learn that at least two separate lawsuits are involved, and the notice refers to at least three separate orders. Further exploration of the briefs and appendix disclose further complexities. There are in fact three separate lawsuits, and there was an appeal in one of them to the Court of Appeals for the Federal Circuit. In at least one of the lawsuits further proceedings are still pending in the district court. One of the orders appealed from here dismisses one of the pending lawsuits on the ground that a decision in another is *res judicata* of the issue presented in it. And if that were not enough, the appellee, The Clausen Company, suggests that the appeal (or appeals) should be transferred to the Federal Circuit. Not without trepidation we have traversed this maze and reached these conclusions:

1. There is an appealable final judgment.
2. The appeal lies to this court.
3. The final judgment must be reversed.

I
A

In 1976 Dynatron/Bondo Corporation (Dynatron) commenced a suit in the United States District Court for the District of New Jersey. The complaint charged that The Clausen Company (Clausen) was infringing Dynatron's United States Patent No. 3,957,176, which describes a method of dispensing putty from a five-gallon pail by means of air pressure. That action, Civil No. 76-2117 was settled on January 15, 1977 when Dynatron and Clausen signed a Settlement Agreement. In that agreement, Dynatron agreed to dismiss its patent infringement suit, and Clausen agreed in relevant part:

> 2a. After the effective date of this Agreement, CLAUSEN shall not make or have made, use, sell or receive or fill with putty any five gallon air operated dispenser containers which, when filled with putty, are similar to the current CLAUSEN five gallon air operated dispenser or which infringe the DYNATRON/BONDO Patent No. 3,957,176.
>
> * * *
>
> After January 15, 1977 . . . CLAUSEN shall pay to DYNATRON/BONDO a royalty in the amount of $5.00 for each five gallon air operated dispenser which is similar to the current CLAUSEN five gallon air operated dispenser or which infringes the DYNATRON/BONDO Patent No. 3,957,176 which is made, used or sold by or on behalf of CLAUSEN. This subparagraph is not a license grant to CLAUSEN to permit continued manufacture, use or sale under the DYNATRON/BONDO patent, but is considered to fix the penalty for violation of this Agreement and for infringement of the DYNATRON/BONDO patent.

In the Settlement Agreement, Clausen thus in effect acknowledges the validity of the patent, agrees not only not to

infringe, but also to refrain from making containers "similar" to Clausen's, and agrees to pay a $5.00 penalty for each infringing device sold in the future. So far as appears, the 1976 suit was dismissed with no reservation of jurisdiction to grant additional relief. Indeed the Settlement Agreement contains a provision for attorneys' fees in the event Dynatron finds it necessary to bring a suit for its enforcement.

Apparently the patent involves the method of sealing the putty can by "lug lids", for after the settlement Clausen continued to make and sell putty pails sealed with ring clamps or ring seals. In 1982, however, according to Dynatron, Clausen began to use a kind of lug lid which Dynatron considers to be an infringement.

B

In May of 1985 Clausen filed in the District of New Jersey a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code, *In the Matter of The Clausen Company, Debtor*, No. 85-02707. Clausen filed an amended plan of reorganization on October 3, 1986, which was confirmed on November 2, 1986. The bankruptcy court ordered that it would retain jurisdiction to determine claims against Clausen. A proof of claim had been filed in the Chapter 11 proceeding by Dynatron on June 28, 1985.

Dynatron's proof of claim referred to the 1977 infringement action, the execution of the Settlement Agreement, and Clausen's breach of that agreement by offering for sale five gallon pails falling within its terms. The proof of claim alleges that the number of pails can be determined from Clausen's records, and alleges, further:

> In accordance with the Settlement Agreement executed by Clausen and Dynatron/Bondo, Clausen is obligated to pay to Dynatron/Bondo $5.00 for each

> five gallon air operated dispenser of the type illustrated and described in said [Clausen] catalog which was made, used or sold by or on behalf of Clausen.

The prayer for relief in the proof of claim is for disclosure of the number of such pails, and for the payment of the $5.00 per pail called for in the agreement. Thus it is clear that the proof of claim pleads a claim for enforcement of the Settlement Agreement, and no other claim. It was amended in October 3, 1985 to include a reference to Reissue Patent Re 31,534, granted in the meantime, but the amendment made no change in the relief requested: enforcement of the Settlement Agreement in accordance with its terms.

C

With Clausen out of reorganization, but Dynatron's proof of claim still pending in the bankruptcy court, Dynatron filed a two count complaint in the district court on February 11, 1987. *Dynatron/Bondo Corporation v. The Clausen Company*, Civil No. 87-362. Count I alleges that Clausen has infringed Patent No. 3,957,176, and continues to infringe reissue patent Re 31,934. Count II alleges that Clausen has breached the Settlement Agreement and seeks the same relief sought in Dynatron's proof of claim in the bankruptcy court, namely, $5.00 a pail for each air operated putty pail made, used or sold by Clausen.

On June 8, 1987 Clausen moved to transfer Civil No. 87-362 to the bankruptcy court. The district court declined to transfer the entire action. Instead the court retained Count I, alleging patent infringement, but transferred Count II to the bankruptcy court, where it was given Adversary No. 87-0915 (TS) in Case No. 85-02027. Count I of Civil No. 87-362, the patent infringement claim, remains pending in the district court to this day. No order was made severing Count I and Count II.

In the bankruptcy court Clausen moved in January 1988 for summary judgment on Count II of Civil No. 87-362 (Adversary No. 87-0915 (TS)), on the ground that the Settlement Agreement as a matter of law constituted patent misuse, and was thus unenforceable. The bankruptcy judge granted this motion. Dynatron appealed the bankruptcy judge's summary judgment on Count II of Civil No. 87-362 to the district court. On November 30, 1988 that court affirmed. Dynatron appealed the order affirming the summary judgment on Count II of Civil No. 87-362 to the Court of Appeals for the Federal Circuit. It is not clear whether Dynatron contended the appeal lay there because Count I of Civil No. 87-362 alleged patent infringement, or because the summary judgment on Count II was granted because of a patent misuse defense, or because the enforcement of the Settlement Agreement sought in Count II might turn on an issue of patent infringement. The claimed basis for appellate jurisdiction in the Federal Circuit makes little practical difference, however, because on March 8, 1989 that court dismissed the appeal on the grounds that an appeal from a district court order dismissing only one count of the two counts in Civil No. 87-362 was not an appealable order. See Fed. R. Civ. P. 54(b). No matter where the appeal had been taken, the conclusion that the order appealed from was not final for purposes of appeal would have been the same when there was no severance of the two counts.

Meanwhile, on March 24, 1987 Clausen filed in the bankruptcy court an adversary proceeding seeking a declaration of non-liability on the proof of claim referred to in Part IB above. This adversary proceeding is identified as Adversary No. 87-0227(TW), in Case No. 85-02707, the Chapter 11 proceeding. The complaint in this adversary proceeding seeks as relief a declaration that Clausen is not liable to Dynatron's

proof of claim. It alleges that a plan of reorganization was confirmed. Additionally, it alleges:

> 7. Upon information and belief, no adversary proceeding was ever commenced by [Dynatron] with respect to either the Original Proof of Claim or the Amended Proof of Claim. Plaintiff believes that it has no liability to defendant on account of either the Original Proof of Claim or the Amended Proof of claim.

This cryptic recital could be read as alleging that Dynatron's failure to commence an adversary proceeding waived its Settlement Agreement claim, or that Clausen had a legal defense to the Settlement Agreement claim. From Dynatron's answer and counterclaim in Adversary No. 87-0227(TW) it appears that Dynatron read it as making both assertions. The answer alleges that the filing of its proof of claim commenced an adversary proceeding. The counterclaim alleges that Clausen is liable on the Settlement Agreement for $5.00 a putty pail. In any event, the pleadings in Adversary No. 87-0227(TW) make it clear that both in the proof of claim and in the counterclaim Dynatron seeks only to enforce the Settlement Agreement, while Clausen seeks only a declaration that it is not liable on that agreement.

The bankruptcy judge in Adversary No. 87-0227(TW) granted summary judgment for Clausen on April 7, 1988. The bankruptcy judge reasoned that his decision on Count II in Civil No. 87-362, holding that the Settlement Agreement was unenforceable because of patent misuse, was *res judicata* in Adversary No. 87-0227 (TW) and thus barred the enforcement of the proof of claim or the counterclaim. On April 12, 1988 Dynatron appealed this ruling to the district court.

E

In the district court an already complicated set of pleadings was complicated further when Clausen moved for summary judgment for Count I of Civil No. 87-362, the patent infringement count. Thus, in January of 1989 the district court had before it Clausen's motion for summary judgment on the patent infringement claim and Dynatron's appeal from the bankruptcy court's summary judgment in Clausen's favor in Adversary No. 87-0227(TW). The district court disposed of both matters in a single order, dated January 25, 1989, the ordering provisions of which read:

> 1. The bankruptcy court's order granting summary judgment to Clausen in Case No. 87-0227(TW) is hereby affirmed subject to the right of Dynatron/Bondo to assert in its claim for patent infringement before this court the issue of its purge of any misuse of the patent in suit;
>
> 2. Clausen's motion for summary judgment is hereby denied.

This is the order appealed from. Its caption bears the number 87-362, which appears to be correct since the second ordering paragraph denies Clausen's motion for summary judgment on Count I in that case. Its caption does not bear the number Adversary No. 87-0227(TW), but the first ordering paragraph plainly refers to that action, affirming the summary judgment granted on *res judicata* grounds. It also bears in the caption, handwritten, "Civ. 88-2351", which is also the first docket number in the caption of Dynatron's notice of appeal. This docket number was assigned by the district court clerk to Dynatron's appeal from the summary judgment in No. 87-0227(TW). Thus it is clear after traversing the maze, that only the part of the January 27, 1988 district court order affirming that summary judgment is appealed from.

II

Obviously the order denying Clausen's motion for summary judgment on Count I of Civil No. 87-362 is not appealable, and neither side contends otherwise. The notice of appeal thus is directed to the first ordering paragraph of the January 27, 1989 order, which affirmed the summary judgment in Clausen's favor in Adversary No. 87-0227(TW). Several questions must be resolved before we get to the merits of that paragraph.

A

The first question is whether the January 27, 1989 order is a final judgment. *See* Fed. R. Civ. P. 54(b). A subsidiary question is whether it is any kind of a judgment, for Fed. R. Civ. P. 58 requires that "[e]very judgment shall be set forth on a separate document." Moreover "[a] judgment is only effective when so set forth and when entered as provided in Rule 79(a)." *Id.* The first ordering paragraph is set forth in the same document which disposes of a motion for summary judgment in a separate case, Civil No. 87-362, which has never been consolidated with No. 88-2351 (Adversary No. 87-0227(TW)). The order is, however, a separate document filed in the latter case, and while we strongly disapprove of the practice of disposing of separate issues in unconsolidated cases by use of a single order, we conclude that Rule 58 has been complied with sufficiently to treat the order appealed from as a judgment.

We also conclude that it is a final judgment, because it affirms a summary judgment which disposes of all claims in Adversary No. 87-0227(TW). Nothing was involved in that adversary proceeding except the enforceability of the Settlement Agreement as an unsecured claim against the debtor, Clausen. That matter has been entirely disposed of. The additional language in the first ordering paragraph, "subject to the right of Dynatron/Bondo to assert in its claim for patent

infringement before this court the issue of its purge of any misuse of the patent in suit" has no bearing upon the claim against the debtor's estate. The language refers to a possible defense of patent misuse in the infringement action, an action in which, following confirmation of the debtor's plan, only post-bankruptcy infringement damages, future or past, would be recoverable.

B

The next question is whether the appeal from this final judgment lies in this court or in the Court of Appeals for the Federal Circuit. Clausen suggests that it belongs in the Federal Circuit but concedes that, if it does, a transfer from this court to cure lack of jurisdiction, pursuant to 28 U.S.C. §1631, would be permissible. Dynatron contends that the appeal lies here. The Court of Appeals for the Federal Circuit has exclusive jurisdiction "of an appeal from a final decision of a district court of the United States . . . if jurisdiction in that court was based, in whole or in part, on section 1338" of Title 28, 28 U.S.C. §1295(a)(1). Section 1338 confers on the district court exclusive original jurisdiction "of any civil action arising under an act of Congress relating to patents . . . ." 28 U.S.C. §1338(a).

We agree with Dynatron. The order appealed from deals solely with the enforceability of the Settlement Agreement. Whether one starts with the proof of claim, with Clausen's adversary complaint, or with Dynatron's counterclaim, nothing else ever was in issue. The Settlement Agreement is a contract. In it Clausen has surrendered the opportunity to contest patent validity and has agreed to pay $5.00 for each putty pail it makes, uses, or sells, which falls within the claims of the patent, whether they are valid or not. Thus, Dynatron is in exactly the same position as a patent licensor who seeks to enforce the terms of a patent license. The governing rule is that a suit on an agreement such as this is not a civil action arising under the patent laws. As the Supreme Court explains:

> [W]here a patentee complainant makes his suit one for recovery of royalties under a contract of license or assignment, or for damages for a breach of its covenants, or for a specific performance thereof, or asks the aid of the Court in declaring a forfeiture of the license or in restoring an unclouded title to the patent, he does not give the federal district court jurisdiction of the cause as one arising under the patent laws. Nor may he confer it in such a case by adding to his bill in averment that after the forfeitures shall be declared, or the title to the patent shall be restored, he fears the defendant will infringe and therefore asks an injunction to prevent it . . . . If . . . the patentee complainant had based his action on his patent right and had sued for infringement, and by anticipation of a defense of the assignment he had alleged a forfeiture by his own declaration without seeking aid of the court, jurisdiction under the patent laws would have attached, and he would have had to meet the claim by the defendant that forfeiture of the license or assignment and restoration of title could not be had except by a decree of a court, which if sustained, would have defeated his prayer for an injunction on the merits. But when the patentee exercises his choice and bases his action on the contract and seeks remedies thereunder, he may not give the case a double aspect, so to speak, and make it a patent case conditioned on his securing equitable relief as to the contract.

Luckett v. Delpark, Inc., 270 U.S. 496, 510-11 (1926). *See also Pratt v. Parts Gas Light & Coke Co.*, 168 U.S. 255, 259 (1897); *Albright v. Teas*, 106 U.S. 613 (1882); *Wilson v. Sanford*, 51 U.S. (10 How.) 99 (1850). The fact that patent misuse and patent invalidity were potential defenses to the proof of claim for enforcement of the contract makes no difference. *Christianson v. Colt Indus. Operating Corp.*, U.S. , 108 S.

Ct. 2166 (1988) (a case does not arise under the patent laws for purposes of sections 1338(a) and 1295(a)(1) because it involves a federal patent law defense); *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) (state court may entertain suit on patent-license agreement involving defense of patent invalidity); *MacGregor v. Westinghouse Elec. & Mfg. Co.*, 329 U.S. 402 (1947) (same).

Since the only claim made in the proof of claim proceeding, Adversary No. 87-0227(TW), was for enforcement of the Settlement Agreement in accordance with its terms, the case was one arising under that agreement, and the district court did not have jurisdiction over it by virtue of section 1338(a). If it did not, then the Federal Circuit does not have jurisdiction under section 1295(a)(1). The appeal lies here.

III

Since we have appellate jurisdiction we turn, finally, to the merits of the district court order which affirms the bankruptcy court's order for the reason that its prior disposition of Count II of Civil No. 87-362 was *res judicata* on the issue of patent misuse:

> In determining the validity of a plea of *res judicata* three questions are pertinent: Was the issue decided in the prior adjudication identical with the one presented in the action in question? Was there a final judgment on the merits? Was the party against whom the plea is asserted a party or in privity with a party to the prior adjudication?

Blonder-Tongue Laboratories, Inc. v. Univ. of Illinois Found., 402 U.S. 313, 323-24 (1971) (quoting *Bernard v. Bank of America Nat. Trust & Sav. Ass'n*, 19 Cal.2d 807, 813, 122 P.2d 892, 895 (1952) (Traynor, J.)). The requirements of identity of issue and privity may well be satisfied in the case before us. The requirement of finality, however, clearly is not. The adjudication relied upon was of the second count of a two count

complaint in Civil No. 87-362. The first count is still pending in the district court. Thus the disposition of the second count falls squarely within Fed. R. Civ. P. 54(b). There has been no express determination that Count II is a separate claim on which a final judgment should be entered. Thus the disposition of Count II is interlocutory, and subject to reconsideration by the district court so long as Count I remains pending.

Since in granting summary judgment in Adversary No. 87-0227(TW) the bankruptcy court relied upon the *res judicata* effect of an interlocutory rather than a final judgment, that court erred, and on appeal the district court should have reversed the summary judgment.

IV

The order of January 27, 1989 affirming summary judgment for Clausen in Adversary No. 87-0227(TW) will be reversed and the case remanded to the district court for entry of an order reversing that summary judgment.

A True Copy:

Teste:

Clerk of the United States Court of Appeals
for the Third Circuit

No. 89-5138

United States Court of Appeals

FOR THE THIRD CIRCUIT

THE CLAUSEN COMPANY,

v.

DYNATRON/BONDO CORPORATION,

Appellant

SUR PETITION FOR REHEARING

Present: GIBBONS, *Chief Judge*, HIGGINBOTHAM, SLOVITER, BECKER, STAPLETON, MANSMANN, GREENBERG, HUTCHINSON, SCIRICA, COWEN and NYGAARD, *Circuit Judges*

The petition for rehearing filed by Appellee in the above entitled case having been submitted to the judges who participated in the decision of this court and to all the other available circuit judges of the circuit in regular active service, and no judge who concurred in the decision having asked for rehearing, and a majority of the circuit judges of the circuit in regular active service not having voted for rehearing by the court in banc, the petition for rehearing is denied.

By the Court,

Chief Judge

DATED: December 22, 1989

Supreme Court, U.S.
FILED
APR 20 1990
JOSEPH F. SPANIOL, JR.
CLERK

No. 89-1552

IN THE

Supreme Court of The United States

OCTOBER TERM 1989

THE CLAUSEN COMPANY,

Petitioner,

v.

DYNATRON/BONDO CORPORATION,

Respondent.

SUPPLEMENTAL APPENDIX TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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NOT FOR PUBLICATION

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

DYNATRON/BONDO CORPORATION, *Plaintiff,*	Civil Action No. 87-362
v.	**OPINION**
THE CLAUSEN COMPANY, *Defendant.*	

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BISSELL, *District Judge*

Presently before the Court are the Clausen Company (Clausen's) motion for summary judgment on Count One of the complaint which alleges patent infringement, and Dynatron/Bondo Corporation's (Dynatron's) appeal from the bankruptcy court's order dated March 28, 1988, granting Clausen summary judgment on the proof of claims action, Case No. 87-0227TW. The Court need not reiterate the statement of facts and procedural posture of this case which have been set forth in two recent opinions.

1. Clausen's Summary Judgment Motion on Count One (Patent Infringement)

This motion, originally returnable on March 28, 1988, was adjourned pending a decision by this Court on Dynatron's appeal from the bankruptcy court's decision granting Clausen summary judgment on Count Two of the complaint. Summary judgment on Count Two was affirmed by the order and opinion of this Court dated November 30, 1988.

In support of the present motion on Count One, Clausen contends that the finding of patent misuse in Count Two triggers the principle of collateral estoppel which mandates preclusion of Dynatron's patent infringement claim on the grounds of misuse. Clausen argues that "[t]he proper remedy for patent misuse is dismissal of the patent suit until the patent misuse [has] been fully abandoned and the consequences of the misuse [have] been fully dissipated." (Clausen's Reply Letter-Br, March 22, 198 at 4). Clausen further contends that even if Dynatron could establish dissipation and purging of the effects of patent misuse, the present claim for patent infringement must be dismissed, leaving Clausen only with the opportunity to file a second claim for patent infringement. (Tr., March 28, 1988, at 18).

Dynatron argues that judgment on Count Two has no preclusive effect on the patent infringement count because "Judge Stripp expressly declined to address the factual and

legal issue of any purge of the patent misuse . . . ." (Dynatron's Letter, Jan. 3, 1989 at 1, citing 6 J.A. 1068). Dynatron urges that on the patent infringement claim, there are remaining "issues of fact as to the date on which any misuse was purged, the effect of any misuse, and the dissipation of any such effects." *Id.* at 3.

DISCUSSION

"Collateral estoppel, . . . has the dual purpose of protecting litigants from the burden of relitigating an identical issue with the same party or his privy and of promoting judicial economy by preventing needless litigation." *Parklane Hosiery Co.* v. *Shore*, 439 U.S. 322, 326 (1979).

In order for the doctrine of collateral estoppel to be applied this Court must find that:

1. the party to be estopped must have been a party or in privity with a party to the prior action;

2. the issues to be estopped must be the same as the issues determined in the prior action;

3. the issues must have been actually litigated and necessary to the prior judgment; and

4. application of collateral estoppel will not be unfair because:

   (a) the party to be estopped had little incentive to vigorously litigate the first action;

   (b) the first judgment is inconsistent with other judgments on the issue to be estopped;

   (c) the second action affords procedural opportunities unavailable in the first action (or, more generally speaking, that the party to be estopped had a full and fair opportunity to litigate its claims in the first action); or

> (d) application of collateral estoppel would not otherwise be unfair to the defendants. *See Parklane Hosiery Co.* v. *Shore*, 439 U.S. 322, 99 S. Ct. 645, 58 L. Ed. 2d 552 (1979).

Glictronox Corp. v. *American Telephone & Telegraph Co.*, 603 F. Supp. 552, 563 (D.N.J. 1984). It is clear that the issue of patent misuse presently before the Court is the identical issue that was the basis for the bankruptcy court's finding of summary judgment on Count Two. Accordingly, the Court deems it improper to consider evidence of the parties "understanding of the settlement agreement" in order to redecide the question of whether Dynatron engaged in patent misuse. (*See* Dynatron's Letter of Jan. 3, 1989 at 2). This Court has already determined that the bankruptcy court was correct in not considering new evidence of intent which was not timely filed. (*See* Op. of Nov. 30, 1988 at 8-16).

However, the issue of whether or not Dynatron has purged its misuse was not addressed by the bankruptcy court. (Joint App., Vol. 6 at 1068; Tr. March 7, 1988 Hrg. of Dynatron's Motion to Reopen). Dynatron correctly argues that once the misuse has been abandoned and the consequences of that practice have been fully dissipated, a patent owner can regain the right to enforce a patent. *United States Gypsum Co.* v. *National Gypsum Co.*, 352 U.S. 457, 465, *reh'g denied*, 353 U.S. 932 (1957); *Morton Salt Co.* v. *G.S. Suppinger Co.*, 314 U.S. 488, 493 (1942). Dynatron contends that the letter dated January 27, 1988 from Mr. Machamer, President of Dynatron, to Mr. Peck, President of Clausen, purges the disputed language in the settlement agreement. The letter states in pertinent part:

> As you know, Dynatron/Bondo Corporation is currently engaged in a patent dispute with The Clausen Company concerning the issue of whether or not the five gallon air operated lug lid putty dispenser sold by Clausen infringes the Dynatron/Bondo Reissue Patent 31,934. Suit was initially brought back in

1976 for infringement of the original patent 3,957,176 and we settled the matter by signing a Settlement Agreement dated January 15, 1977.

You will recall that after the date of signing the Settlement Agreement Clausen began the production and sale of another type of five gallon air operated putty dispenser that had a ring clamp instead of a lid with lugs to hold the lid to the pail. I acknowledged to you by phone and in person that this ring type cover, in our opinion, after consulting with legal counsel, did not infringe the Dynatron/Bondo patent and you continued shipping these units for a number of years. Clausen later changed back to the old lug lid dispenser which we believe infringes our patent. Our second suit was brought against Clausen because of the sale by Clausen of the lug lid dispenser which infringes our patent.

When Clausen resumed the sale of the five gallon air operated lug lid dispenser and filed Chapter 11 bankruptcy proceedings, Dynatron/Bondo filed a claim in bankruptcy which was based upon the Settlement Agreement. The Clausen attorneys filed a motion for summary judgment which asserted that the language of the Settlement Agreement was a misuse of the patent. The Bankruptcy Court agreed with Clausen's attorneys and granted the motion.

It has never been my intent to extend the coverage of the patent beyond the coverage legally granted by the claims of the patent. This letter is to assure Clausen that Dynatron/Bondo has not interpreted and will not interpret the Settlement Agreement as covering any dispenser sold by Clausen that does not infringe the claims of the patent.

In view of the Memorandum Opinion and Order of Judge Stripp filed January 22, 1988 in the Clausen

> bankruptcy proceeding, *we hereby formally advise you that Dynatron/Bondo Corporation hereby unequivocally repudiates, waives and disclaims in their entirety the clauses "similar to the current Clausen five gallon air operated dispenser or" in Paragraphs 2(a) and 2(c) of the Settlement Agreement of January 15, 1977.*
>
> *Similarly, to the extent that our attorney's letter to you dated December 8, 1986 or any other communication to Clausen from or on behalf of Dynatron/Bondo could have been interpreted to relate to putty dispensers other than those covered by our patent Re. 31,934, we hereby unequivocally repudiate, waive and disclaim any demand of any kind that Clausen terminate the production, use or sale of any dispensers other than dispensers covered by said patent.*

(Joint App., Vol. 3 at 444-46) (emphasis added).

Clausen argues that once misuse is found dismissal of the patent infringement count is appropriate and suit may be reinstituted once the misuse is purged. In support of this proposition, Clausen relies on *Steward* v. *Mo-Trim, Inc.*, 192 U.S.P.Q. 410 (S.D. Ohio 1975), in which the court noted that "[o]nce the misuse has been purged, . . . , suit may again be brought." 192 U.S.P.Q. at 412. In *Steward*, the court found that plaintiff's misuse was not purged where plaintiff was still bringing suit to enforce the anti-competitive clause.

However, in *Park-In Theatres* v. *Paramount-Richard*, 90 F. Supp. 730 (D. Del.), *aff'd*, 185 F.2d 407 (3d Cir. 1950), *cert. denied*, 341 U.S. 950 (1951), the court recognized that a finding of misuse does not necessarily end a court's inquiry. Because a patent holder is entitled to enforce a valid patent after purging misuse, where a party raises the issue of purge, consideration must be given to whether or not a purge has been effected. *Id.* at 735. In *Park-In Theatres*, the court noted

that plaintiff had not amended its complaint to include facts relating to the purge. Nevertheless, the court found that

> . . . the affidavits filed by both sides indicate, at the least, that there is an issue as to the facts relating to the question of the cessation of the patent misuse and the dissipation of its consequences, if any. While it may be true, as is argued by defendants, that there is no clear and positive showing by the plaintiff of the dissipation of the possible consequences of the patent misuse, I am of the opinion that the granting of the motion for summary judgment with respect to this cause of action in the face of the existence of an issue of fact affecting the right of the plaintiff to maintain and prosecute its patent infringement suit is not permitted under Rule 56 . . . and summary judgment cannot, therefore be granted.

90 F. Supp. at 736.

Similarly, in *Metallurgical International* v. *Kawecki, Industries*, 171 U.S.P.Q. 348 (E.D. Pa. 1971), the court denied defendant's motion for summary judgment which attempted to preclude plaintiff from enforcing its patent due to misuse. The court stated:

> Although it is true that one who misuses a patent must demonstrate that the misuse has been purged before his patent again becomes enforceable, defendant's contention that plaintiff must allege facts which affirmatively demonstrate that the misuse has been purged in order to avoid summary judgment appears to require too much.

171 U.S.P.Q. at 351 (citations omitted).

A critical factor in the court's denial of summary judgment in *Metallurgical* was plaintiff's allegation that it agreed unconditionally to waive and disclaim the offensive contractual language. Additionally, the court deemed summary judgment to be inappropriate considering "the policy against

piecemeal litigation of patent cases, and the tendency of courts to screen carefully the attempt of an alleged infringer to escape accountability by asserting as a defense another's wrong, . . . " 6 Moore, Federal Practice ¶ 56.17[44] nn. 58, 59." *Id.* at 351.

In *Sylvania Industrial Corp.* v. *Visking Corp.*, 132 F.2d 947, 958 (4th Cir. 1942), *reh'g granted*, 319 U.S. 777 (1943), the defendant argued, as does Clausen, that the proper procedure once misuse is found is for the patent infringement case to be dismissed and a new action brought once the effects of misuse are fully dissipated. Despite this argument, the court in *Sylvania* held that the district court did not abuse its discretion by not requiring plaintiff to institute a new suit when the lower court was satisfied upon plaintiff's filing of supplemental pleadings that the misuse had been purged. Here, the Court cannot find that the misuse has been purged and there is nothing before the Court addressing the dissipation of any effects of the misuse. However, in light of Dynatron's letter of January 27, 1988 whereby it agrees to unconditionally waive and disclaim the anti-competitive provision of the settlement agreement, the Court finds that there are questions of fact regarding purge which would effect Dynatron's right to resurrect enforcement of its patent. These questions of fact preclude granting Clausen's motion for summary judgment. *See* 6 Moore's *Federal Practice* ¶ 56.17[44] nn. 60, 61.

2. Appeal of Bankruptcy Court's Award of Summary Judgment on 87-0227TW (Proof of Claims)

Proof of claims was filed in the bankruptcy court by Dynatron in 1985 for the purpose of seeking damages and for injunctive relief for Clausen's alleged breach of settlement agreement and for patent infringement. In 1987, Clausen filed a complaint to dismiss the proof of claims and Dynatron counterclaimed for breach of the settlement agreement and patent infringement. This action was docketed as 87-0227TW.

Clausen filed a motion for summary judgment on 87-0227 based on the *res judicata* effects of the bankruptcy court's January 22, 1988 decision that Dynatron was guilty of patent misuse and that Clausen was entitled to summary judgment on Count Two of the Complaint. (87-0915TS).

At oral argument on March 28, 1988, the bankruptcy judge found that the parties and the issues to both actions were identical with the exception that Clausen had not affirmatively pled the defense of patent misuse in 87-0227 whereas it had done so in 87-0915. The bankruptcy judge granted Clausen summary judgment suggesting that to require Clausen to first replead and to assert the misuse defense would be to engage in wasteful "hypertechnicality." (Joint App., Vol. 6 at 1081).

Inasmuch as this Court is called upon to review a conclusion of law by the bankruptcy court, an independent determination of the applicable law must be undertaken. *Matter of Hammons*, 614 F.2d 399, 401 (5th Cir. 1980); *In re Testmetges*, 47, Bankr. 385, 388 (E.D.N.Y. 1984).

In support of this appeal, Dynatron contends that evidence produced before and after the motion for summary judgment in 87-0915 created genuine issues of material fact regarding the meaning of the settlement agreement which should have precluded the granting of summary judgment in 87-0227 on *res judicata* grounds. (Appellant's Br. at 41-42).

The Court agrees with the bankruptcy court's finding that the issue of patent misuse in 87-0227 was identical to that which was adjudicated in the previous motion. As this Court stated in its November 1988 opinion, if Dynatron was unable for any reason to procure proofs in a timely fashion in order to oppose Clausen's motion for summary judgment, it was encumbent upon it to notify the Court. *See* Fed. R. Civ. P. 56(f). Furthermore, if Clausen resisted Dynatron's requests for discovery which was necessary to oppose the motion, Dynatron should have utilized the remedy afforded to it by Fed. R. Civ. P. 37. The bankruptcy court correctly

refused to give Dynatron a "second bite" at opposing summary judgment on the issue of patent misuse.

Dynatron also argues that summary judgment was improper because Clausen did not insert misuse in the pleadings. Dynatron cites the following language from Fed. R. Civ. P. 56(a): "A party seeking to recover upon a claim, counterclaim or crossclaim or to obtain a declaratory judgment may . . . move . . . for summary judgment . . . " Dynatron cites case law which states that pleading requirements cannot be relaxed when affirmative relief is sought. *See Atlas Chemical Industries, Inc.* v. *Moraine Products*, 509 F.2d 1, 7 (6th Cir. 1974). In *Atlas*, the court cited the following passage from Moore's *Federal Practice*:

> [T]he function of pleadings under the Federal Rules is to give *fair notice* of the claim asserted so as to enable the adverse party to answer and prepare for trial, to allow for the application of the doctrine of res judicata, and to show the type of case brought, . . . so that it may be assigned to the proper form of trial. 2A Moore's Federal Practice ¶8.13 at 1695.

Here, it cannot be said that Dynatron did not have notice and opportunity to address this issue when it was the subject of the first summary judgment motion and it was fully briefed in preparation for the second motion. The bankruptcy judge's decision in this pleading question was correct.

Dynatron further contends that summary judgement in 87-0227 was improper because at the time it was granted no written order had been signed in adversary 87-0915. A discussion on this matter took place at the conclusion of oral argument on the latter summary judgment motion where it was brought to light that no order had been signed on the earlier motion. However, Judge Stripp requested that a form of order for both motions be submitted to him. It appears that the order on 87-0915 was signed at least simultaneously if not before the order on 87-0227.

Additionally, Dynatron argues that its claims for breach of settlement agreement and patent infringement in 87-0227 were claims for post-confirmation relief. Accordingly, Dynatron argues these claims were not core proceedings or related proceedings and that the bankruptcy court had no jurisdiction to address these matters. (Dynatron's Jan. 3, 1989 Letter-Br. at 3-4). Dynatron cites *In re Pan American School of Travel Inc.*, 225 U.S.P.Q. 152 (Bankr. S.D.N.Y. 1985), where the bankruptcy court found that it had no subject matter jurisdiction pursuant to 28 U.S.C. § 157 to address a claim for injunctive relief to prevent a post-confirmation debtor from infringing the claimant's trademark. The court stated that " . . . with the debtor having confirmed its plan, there is no need for bankruptcy court involvement since the action seeks only to bar future conduct in the post-bankruptcy period." 225 U.S.P.Q. at 154. Although the court recognized that the injunctive relief would effect the debtor's freedom of action, the court emphasized that such relief would not impact handling and administration of the estate. *Id.*

Pursuant to 28 U.S.C. § 157, a bankruptcy court may hear and determine all cases under Title 11, core proceedings under Title 11, and all cases related thereto. *See* 28 U.S.C. § 1471(b) (attached). The Third Circuit Court in *Pacor Inc.* v. *Higgins,* 743 F.2d 984 (3d Cir. 1984), enunciated the test for determining whether a civil proceeding is related to bankruptcy as

> whether *the outcome of that proceeding could conceivably have any effect on the estate being administered in bankruptcy.* An action is related to bankruptcy if the outcome could alter the debtor's rights, liabilities, options, or freedom of action (either positively or negatively) and which in any way impacts upon the handling and administration of the bankrupt estate.

743 F.2d at 994 (emphasis in original).

Based on the information before this Court concerning the timing of the confirmation proceedings and Dynatron's filing of its proof of claims, this Court cannot conclude that 87-0227 was solely a post-confirmation proceeding which "could [not] conceivably have any effect on the" administration of Clausen's estate. *Id.* Clausen's action to dismiss the proof of claim would certainly have impacted on the administration of its estate. The bankruptcy court had jurisdiction in this matter.

Finally, Dynatron argues that there can be no *res judicata* effect from the first summary judgment where the issue of any purge of the patent misuse was never addressed. Dynatron argued before the bankruptcy court in opposition to summary judgment on 87-0227 that the January 27, 1988 letter (*see* pages 5 and 6 of this opinion) from Dynatron's president to Clausen's president was evidence of the purge of misuse. The issue of purge was raised in Dynatron's brief before the bankruptcy judge and was not mentioned by him in his brief oral opinion granting summary judgment on the grounds of the *res judicata* effect of his decisions in Case No. 87-0915TS. Ordinarily this might be troublesome; however, the purge issue was clearly not ripe for consideration on March 28, 1988, merely two months after the January 27 letter. Accordingly the bankruptcy court decision is correct as to the issues ripe and properly before it ten months ago.

For the reasons discussed above, Dynatron's appeal is denied and the decision of the bankruptcy court is affirmed. This disposition of Case No. 87-0227TW, however, as with that of its companion Case No. 87-0915TS, has no bearing whatsoever upon Dynatron's right to litigate in this United States District Court the issue of its alleged purging of patent misuse.

JOHN W. BISSELL
United States District Judge

DATED: January 25, 1989

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CERTIFICATE OF MAILING

I hereby certify that on this 5th day of April, 1990 a true and correct copy of the foregoing **SUPPLEMENTAL APPENDIX TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT** was mailed by placing the same in the United States Mail, postage prepaid, addressed as follows:

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No. 89-1552

Supreme Court, U.S.
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CLERK

In The

Supreme Court of the United States

October Term, 1989

THE CLAUSEN COMPANY,

Petitioner,

vs.

DYNATRON/BONDO CORPORATION,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Third Circuit

BRIEF FOR RESPONDENT

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THE CLAUSEN COMPANY,

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Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Third Circuit

BRIEF FOR RESPONDENT

OPINION BELOW

The opinion of the United States Court of Appeals for the Third Circuit in this case has been published in 889 F.2d 459 and 12 U.S.P.Q. 2d 1814. A decision in a related but separate case between the parties has been published in 81 B.R. 285 and the disposition of an appeal in that matter has been noted in 878 F.2d 1443.

STATEMENT OF THE CASE

The Statement of the Case presented by the petitioner, The Clausen Company ("Clausen"), requires clarification as to precisely what aspect of the controversy was before the United States Court of Appeals for the Third Circuit. A more lucid statement of the case appears at pages five through ten of the opinion of the United States Court of Appeals for the Third Circuit, a copy of which is annexed to the Petition for Writ of Certiorari.

The case which is the subject of the Petition for Writ of Certiorari originated in the United States Bankruptcy Court for the District of New Jersey. In May of 1985, Clausen filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code (Title 11 of the United States Code). On June 28, 1985, Dynatron/Bond Corporation* ("Dynatron"), filed a proof of claim in the Chapter 11 proceeding. That proof of claim identified Dynatron's patent, referred to a previous action for patent infringement and identified the settlement agreement between Dynatron and Clausen. The proof of claim stated in relevant part:

* * *

> 6. The Settlement Agreement between Dynatron/Bondo and Clausen stipulates that after January 15, 1977 Clausen shall pay to Dynatron/Bondo a royalty in the amount of $5.00 for each five gallon air operated dispenser which is simliar to the then current Clausen five gallon

---

* Dynatron/Bondo Corporation does not have a parent company and its only subsidiary is the Canadian corporation, Bondo Canada, Ltd.

air operator [sic] dispenser which infringes the Dynatron/Bondo patent 3,957,176 which is made, used or sold by or on behalf of Clausen.

7. Upon information and belief, beginning shortly after January 15, 1977 and continuing to the current time, Clausen advertised and offered for sale and sold five gallon air operated dispenser pails which are similar to the five gallon air operated dispenser of Clausen which was the subject of said Civil Action 76-2117, and which infringes U.S. Patent 3,957,176. A copy of catalog number CC10183 of Clausen is attached hereto as Exhibit C. It is noted that the five gallon dispenser pall offered for sale by Clausen is illustrated on page number one of the catalog . . . .

8. . . . In accordance with the settlement agreement executed by Clausen and Dynatron/Bondo, Clausen is obligated to pay to Dynatron/Bondo $5.00 for each five gallon air operated dispenser of the type illustrated and described in said catalog which was made, used or sold by or on behalf of Clausen.

WHEREFORE, Dynatron/Bondo demands as follows:

1. Clausen be required to show proof of the number of five gallon dispenser pails and other dispenser pails of the general type disclosed in Clausen's catalog number CC10183 which were made, used or sold by or on behalf of Clausen from the time beginning January 15, 1977 and continuing to this date.

> 2. That Clausen be required to pay to Dynatron/Bondo an amount equal to $5.00 for each five gallon dispenser pail or other pail that is similar to the dispenser pail illustrated in Clausen catalog CC10183 or that infringes U.S. Patent 3,957,176 and that was made, used or sold by or on behalf of Clausen after January 15, 1977.
>
> * * *

Thus, the relief sought in the proof of claim was an accounting of the number of pails which were made, used or sold in violation of the settlement agreement and compliance with the settlement agreement's provision requiring a payment of $5.00 for each pail sold in violation of the settlement agreement.

Upon the filing of the proof of claim, Dynatron's claim was deemed allowed until a party in interest objects. 11 U.S.C. § 512(a). Thus, Dynatron had done all that was required to preserve its claim.

Dynatron's proof of claim was amended in October of 1985 to refer to Reissue Patent Re 31,534. This reissue patent was applied for in May of 1978. During the reissue proceedings, an issue apparently arose over a feature of another putty dispenser. The inventor of the Dynatron putty dispenser sought to amend claims six through nine of U.S. Patent 3,957,176, to clarify an aspect of the operation of the invention. In support of the reissue, and consistent with accepted practice, the inventor stated that he believed the original patent to be wholly or partially inoperative or invalid by reason of claiming more than he had a right to claim, and that he first became aware of the deficiencies through the Official Action dated January 2, 1980 from the U.S. Patent and Trademark Office. The reissue patent issued July 2, 1985 with original claims one through five unchanged and with claims six

through nine amended. Claims one through five, which are in issue in a related matter which is still before the U.S. District Court, remained in effect continuously from the date of the original patent. 35 U.S.C. § 252. The reissue patent had been upheld by the Federal Circuit in *Dynatron/Bondo Corporation v. Fibre Glass Evercoat Co.*, in an unpublished decision dated October 23, 1987 (disposition noted at 833 F. 2d 1024).

In November of 1986, Clausen's plan for Chapter 11 reorganization was approved.

In February of 1987, Dynatron commenced a related case in the United States District Court for the District of New Jersey (Civil Action No. 87-362) for patent infringement (Count I) and for breach of the settlement agreement (Count II). In March of 1987, Clausen commenced the present adversary proceeding in the United States Bankruptcy Court for the District of New Jersey. After identifying the parties, Clausen's filing for relief under the Bankruptcy Code, and Dynatron's proof of claim and amended proof of claim, Clausen alleged:

> 7. Upon information and belief, no adversary proceeding was ever commenced by defendant [Dynatron] with respect to either the Original Proof of Claim or the Amended Proof of Claim. Plaintiff [Clausen] believes that it has no liability to defendant on account of either the Original Proof of Claim or the Amended Proof of Claim.
>
> * * *
>
> WHEREFORE, plaintiff demands judgment against defendant as follows:
>
> (a) declaring that plaintiff is not liable to

> defendant pursuant to the Proof of Claim and/or Amended Proof of Claim.
>
> * * *

Dynatron answered this Complaint and asserted a counterclaim which alleged Clausen had violated the settlement agreement and Dynatron sought to enjoin Clausen "from producing 5 gallon air operated lug lid dispensers in accordance with the terms of the Settlement Agreement." Dynatron also sought an award of costs and attorneys' fees "for breach of said Settlement Agreement," and "For plaintiff to pay defendant an amount equal to $5.00 times the number of five gallon air operated dispensers made on or behalf of plaintiff, which, when filled with putty, are similar to the five gallon air operated containers produced by or on behalf of plaintiff at the time of the execution of the Settlement Agreement or which infringe said reissue patent 31,934." Except for the reference to the reissue patent, Dynatron's demand tracked the language of the Settlement Agreement.

In the related case before the United States District Court, the count of the complaint regarding the breach of the settlement agreement was referred to the Bankruptcy Court. Upon Clausen's motion for summary judgment, the Bankruptcy Court concluded that the language of the settlement agreement and the repetition thereof in Dynatron's demands constituted patent misuse. The Bankruptcy Court entered summary judgment in favor of Clausen on the count for breach of the settlement agreement in the United States District Court action.

This summary judgment on the second count of the related case was timely appealed to the United States District Court. The United States District Court affirmed the decision of the Bankruptcy Court, and further appeal was timely taken to the United States Court of Appeals for the Federal Circuit. The

Federal Circuit remanded the matter to the United States District Court reasoning that because the first count of the complaint was still pending, the decision on the second count was not a final judgment.

In the present case, Clausen sought summary judgment on the grounds that the decision on the second count in the other case was *res judicata*. The Bankruptcy Court entered summary judgment in favor of Clausen, and Dynatron appealed to the United States District Court of Appeals for the Third Circuit. On November 3, 1989, the Third Circuit issued its decision reversing the judgment.

SUMMARY OF ARGUMENT

A. The United States Court of Appeals for the Third Circuit Properly Applied the Law Regarding Appellate Jurisdiction.

The Third Circuit was clearly aware of the controlling decision of the Supreme Court in *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800, 108 S. Ct. 2166, 100 L. Ed. 2d 811 (1988). Upon a review of the relevant pleadings, the Third Circuit determined that the claims in the present case are for a breach of a settlement agreement and properly concluded that the Third Circuit had jurisdiction over the case.

B. United States Court of Appeals for the Federal Circuit Does Not Have Jurisdiction over the Appeal in this Case Under *Korody-Colyer Corp. v. General Motors Corp.*, 828 F. 2d 1572 (Fed. Cir. 1987) or Under the Other Authorities Cited By Clausen.

Although the Federal Circuit will have jurisdiction over any appeal from the finding of patent misuse in a related case pending in the United States District Court, the Federal Circuit does not and never had jurisdiction over the appeal in this separate case.

C. A Writ of Certiorari Should Not be Granted in this Case with Respect to Whether the Settlement Agreement is Subject to the Rule of *Lear v. Adkins*, 395 U.S. 653 (1969).

The Federal Circuit has not as yet addressed the related case in which Clausen raised its claim of alleged patent misuse arising out of the settlement agreement. The case which is presently the subject of Clausen's petition for a writ of certiorari is based on a determination that the order in the related case is not *res judicata* in this case. A writ of certiorari should not be issued in this case to review issues in another case when the United States Court of Appeals has not yet addressed the issue in the other case.

REASONS FOR DENYING THE WRIT

I.

THE THIRD CIRCUIT PROPERLY FOUND THAT IT HAD JURISDICTION IN THIS CASE.

Exclusive jurisdiction over an appeal from a final decision of a district court lies in the Federal Circuit if the jurisdiction of the district court "was based, in whole or in part, on section 1338" of Title 28. 28 U.S.C. § 1295(a). In turn, Section 1338 of Title 28 confers subject matter jurisdiction over "any civil action arising under any Act of Congress relating to patents . . . " 28 U.S.C. § 1338(a). Jurisdiction under Section 1338 extends "only to those cases in which a well pleaded complaint establishes either federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well pleaded claims." *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800, 809, 108 S. Ct. 2166, 2173, 100 L. Ed. 2d, 811, 825 (1988). A claim supported by alternative theories may not be the basis for Section 1338

jurisdiction unless patent law is essential to each theory. *Id.* 486 U.S. at 810, 108 S. Ct. at 2174, 100 L. Ed. 2d at 826. Clausen does not appear to dispute these settled aspects of the law.

The Third Circuit correctly applied the law to this case. Clausen's indeterminate complaint alleged that Clausen was not liable on Dynatron's proof of claim or amended proof of claim. The Third Circuit found:

> The order appealed from deals solely with the enforceability of the Settlement Agreement. Whether one starts with the proof of claim, with Clausen's adversary complaint, or with Dynatron's counterclaim nothing else ever was in issue.

With such a determination having been made by the Third Circuit, this case does not present issues justifying a writ of certiorari. Nothing appears on the face of Clausen's complaint or on the face of the proof of claims that indicates patent law was essential to each of Clausen's theories of its claim.

II.

THE DECISIONS IN *KORODY-COLYER CORP. V. GENERAL MOTORS CORP.*, 828 F.2d 1572 (FED. CIR. 1987) AND *TECHNICON INSTRUMENTS CORP. V. ALPKEM CORP.*, 866 F.2d 417 (FED. CIR. 1989) DO NOT SUPPORT CLAUSEN'S ASSERTIONS.

Clausen contends that the decisions in *Korody-Colyer Corp. v. General Motors Corp.*, 828 F. 2d 1572 (Fed. Cir. 1987) and *Technicon Instruments Corp. v. Alpkem Corp.*, 866 F.2d 417 (Fed. Cir. 1989) support Clausen's claims that the appeal in this case should have been heard by the Federal Circuit. Clausen states

that these two cases "show striking similarity to the present situation."

These two cases do not support Clausen's contentions. In both *Korody-Colyer Corp. supra*, and *Technicon Instruments Corp., supra*, the plaintiffs clearly pleaded claims arising under the patent jurisdiction of Section 1338 of Title 28. The plaintiffs also pleaded other claims not arising under the patent laws in the same case. Both decisions stand for the proposition that when there is Section 1338 patent jurisdiction over part of the case, even the non-patent claims will be heard on appeal by the Federal Court.

In the present case, the Third Circuit has correctly held that this case is a breach of contract action and therefore jurisdiction does not arise under Section 1338. Because Section 1338 jurisdiction never existed in this case, the cases cited by Clausen are inapposite. *Korody-Colyer Corp., supra,* and *Technicon Instruments Corp., supra* do not extend so far as to hold that an appeal in a case such as this one must be heard by the Federal Circuit because a separate but related case between the parties would be heard by that court. Indeed, the theory of *Korody-Colyer Corp., supra,* and *Technicon Instruments Corp., supra*, is that the Federal Circuit's jurisdiction attaches to a specific case rather than a specific claim. Clausen's argument in this matter is contrary to the theory of those two decisions because the essence of Clausen's argument must be that Federal Circuit jurisdiction is not over a specific case but extends to multiple cases involving the same parties. Such a claim is not support by the authorities cited by Clausen.

III.

A WRIT OF CERTIORARI SHOULD NOT BE GRANTED TO REVIEW A DETERMINATION MADE IN ANOTHER CASE, PARTICULARLY WHERE THE COURT OF APPEALS HAS NOT ADDRESSED THE ISSUE IN THAT CASE.

The finding of patent misuse occurred in the case which is still before the United States District Court. Similarly, any determination that *Lear v. Adkins*, 395 U.S. 653, 89 S. Ct. 1902, 23 L. Ed. 2d 610 (1969) allows Clausen to contest the settlement agreement occurred in the case which is still before the United States District Court. Although that matter was sought to be appealed to the Federal Circuit, it was remanded to the United States District Court because of the absence of a final judgment. Clausen did not at that time petition for a writ of certiorari nor did it seek any interlocutory review in that case. Clausen's petition for a writ of certiorari regarding issues in a case other than the present one is improper. A writ of certiorari may only be granted in cases in the Courts of Appeals, 28 U.S.C. § 1254, and the case in which the issues were addressed is no longer before the Court of Appeals. In addition, Clausen did not petition for a writ of certiorari in that case within the time required by 28 U.S.C. § 2101(c).

The policy underlying *Lear v. Adkins*, 395 U.S. 653, 89 S. Ct. 192 23 L. Ed. 2d 610 (1969) is to further the public interest by allowing challenges to assertedly invalid patents to be made by licensees who would otherwise be estopped by the terms of their license. *Lear v. Adkins, supra*, addressed the concern that a patent might never be challenged because the persons with the incentive to make the challenge might be estopped by their licenses. The policy of allowing an action challenging a patent despite what might otherwise be an estoppel is not significantly advanced where

the action creating the estoppel arises from litigation in which the invalldity of the patent could have been fully challenged.

The Federal Circuit has held that *Lear v. Adkins, supra*, does not extend to settlement agreements because of the countervailing policy of encouraging settlement and finality of litigation. *Hemstreet v. Speigel Inc.*, 851 F.2d 348 (Fed. Cir. 1988). Clausen also refers to other cases of similar import, but claims "the facts of the present case are far different." Inasmuch as the basis for the holdings in those cases is derived from policies of promoting settlements and finality in litigation, the facts in the present matter are not different in any material way. But even if the facts in this case are different from *Hemstreet v. Speigel, Inc., supra*, the Court of Appeals should have an opportunity to review the facts and apply the law thereto.

Finally, Clausen identifies one decision, *Warner-Jenkinson Co. v. Allied Chemical Corp.*, 567 F.2d 184 (2nd Cir. 1977), which it asserts is in conflict with *Hemstreet v. Speigel Inc., supra. Warner-Jenkinson Co. v. Allied Chemical Corp., supra*, also recognized that there may be appropriate circumstances where a party would be estopped by a prior settlement of litigation. That case does not present such a split among the Circuits that, in llght of the subsequent exclusive vesting of appellate jurisdiction in the Federal Circuit in cases arising under the patent laws, the Supreme Court should engage in the unprecedented act of granting a writ of certiorari in this case to address issues in a separate case which is still pending before the district court. *Warner-Jenkinson Co. v. Allied Chemical Corp., supra*, is also factually distinguishable from the disputes between Clausen and Dynatron because in *Warner-Jenkinson Co.* the settlement included a license to practice the invention whereas the settlement agreement between Clausen and Dynatron provides that the "royalty" for the violation of the settlement agreement "is not a license grant to Clausen . . . "

IV.

ISSUES NOT RAISED IN THE COURT BELOW SHOULD NOT SUPPORT THE GRANTING OF A WRIT OF CERTIORARI.

Clausen now purports to argue that the settlement agreement's damages provision is pre-empted by 35 U.S.C. § 284. This argument was not briefed below and should be deemed waived.

CONCLUSION

For the reasons presented here, and particularly because the United States Court of Appeals for the Third Circuit correctly found that this case is over the enforcement of a settlement agreement and there is no basis for the Court of Appeals for the Federal Circuit to have had jurisdiction over the appeal in this case, it is respectfully urged that the Petition for Certiorari be denied.

Respectfully submitted,

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